

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 IO-13 FS-01 ABF-01 /108 W  
-----054817 021931Z /75  
R 021524Z JUN 78  
FM AMEMBASSY CARACAS  
TO SECSTATE WASHDC 2512

LIMITED OFFICIAL USE SECTION 1 OF 2 CARACAS 4991

E.O. 11652: N/A  
TAGS: EFIN VE  
SUBJECT: GOV MOVES TO INCREASE BANK LIQUIDITY

1. ON MAY 30 THE CENTRAL BANK ANNOUNCED A SERIES OF MEASURES DESIGNED TO INCREASE THE AVAILABILTY OF CREDIT TO PRIVATE SECTOR BUSINESS. THE MESAURES ANNOUNCED INCLUDE THE FOLLOWING:

--THE RESERVE REQUIREMENT FOR OFFICIAL DEPOSITS IN COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS WAS REDUCED FROM 65 PERCENT TO 50 PERCENT.

--THE CENTRAL BANK "SWAP RATE" WAS REDUCED IN TWO STEPS FROM 1.86 PERCENT A YEAR TO .465 PERCENT A YEAR, AND THE MAXIMUM TERM EXTENDED FROM SIX MONTHS TO ONE YEAR, THUS MAKING IT EASIER AND CHEAPER FOR VENEZUELAN CORPORATIONS TO BORROW ABROAD TO MEET BOLIVAR OBLIGATIONS.

2. THE MEASURES WERE TAKEN IN RESPONSE TO INCREASING COMPLAINTS FROM THE PRIVATE WECTOR THAT THERE WAS NOT SUFFICIENT LIQUIDITY IN THE BANKING SYSTEM TO MEET THE NEEDS OF VENEZUELA'S GROWING ECONOMY. BUSINESSMEN HAVE  
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BEEN COMPLAINING ABOUT CREDIT SHORTAGES SINCE LAST JULY WHEN THE GOV INTRODUCED A SERIES OF MEASURES DESIGNED TO DAMPEN INFLATIONARY PRESSURES BY REDUCING LIQUIDITY IN THE BANKING SYSTEM, ESTABLISHING PRICE CONTROLS ON SELECTED GOODS AND SERVICES, AND RESTRICTING CONSUMER CREDIT (SEE 77 CARACAS 6891). DURING THE PAST SEVERAL MONTHS THE GOV HAS TAKEN STEPS

TO RELAX THE CREDIT RESTRICTIONS IMPOSED LAST JULY, AND THE DECISIONS ANNOUNCED MAY 30 ARE CONSIDERED THE FINAL STEP IN THAT PROCESS. THE ONLY LIMITATIONS THAT APPEAR TO REMAIN ARE THOSE APPLIED TO REAL ESTATE TRANSACTIONS.

3. THE BASIC COMPLAINT OF THE PRIVATE SECTOR IS THAT CREDIT FROM COMMERCIAL BANKS HAS BECOME GRADUALLY LESS AVAILABLE DURING THE PAST SEVEN OR EIGHT MONTHS. THIS HAS HAPPENED IN SPITE OF THE FACT THAT THE MONEY SUPPLY (M-2) HAS EXPANDED BY 14 PERCENT TO BS. 66 BILLION SINCE LAST JULY AND DESPITE THE FACT THAT CENTRAL BANK ADVANCES AND REDISCOUNTS TO THE COMMERCIAL BANKING SYSTEM TOTALLED ALMOST BS. 2 BILLION AT THE END OF APRIL. MAJOR FACTORS CONTRIBUTING TO THE PERCEIVED CREDIT SHORTAGE INCLUDE THE FOLLOWING:

--WHILE IT IS TRUE THAT THE SUPPLY OF MONEY INCREASED BY ABOUT 5 PERCENT DURING THE FIRST FOUR MONTHS OF THIS YEAR, THE JANUARY-APRIL 1977 RATE OF INCREASE WAS 8 PERCENT; IN ADDITION, BANK DEPOSITS WERE UP ONLY BS. 1 BILLION DURING THE FIRST FOUR MONTHS OF 1978, WHILE LOAN DEMAND WAS UP BS. 4 BILLION. AS IN THE CASE OF MANY COMMODITIES IN VENEZELA, THE DEMAND FOR CREDIT IS GROWING AT A FASTER RATE THAN THE SUPPLY.

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RESTRICTIONS ARE APPLIED TO COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS WHICH LIMIT THE SUPPLY OF CREDIT THAT WOULD OTHERWISE BE AVAILABLE. FOR EXAMPLE, SINCE MID-1977 THE GOV HAS REQUIRED COMMERCIAL BANKS TO HAVE A MINIMUM OF 20 PERCENT OF THEIR LOAN PORTFOLIO IN THE AGRICULTURAL SECTOR. FOR A NUMBER OF REASONS BANKS HAVE HAD DIFFICULTIES MAKING LOANS TO AGRICULTURAL ENTERPRISES, THUS LIMITING THE AVAILABILITY OF CREDIT TO OTHER SECTORS.

--THE JULY 1977 MEASURES MADE IT MORE DIFFICULT AND EXPANSIVE FOR VENEZUELAN CORPORATIONS TO BORROW ABROAD TO MEET BOLIVAR OBLIGATIONS, THUS CUTTING OFF A TRADITIONAL SOURCE OF CREDIT. THE DOMESTIC MONEY MARKET NORMALLY HAS NOT BEEN ABLE TO MEET ALL OF THE DEMAND FOR CREDIT IN THIS ECONOMY.

--AS POINTED OUT IN CARACAS 4279, CENTRAL BANK FOREIGN EXCHANGE RESERVES HAVE DECLINED BY ALMOST \$1.7 BILLION IN THE PERIOD AUGUST 1977 TO APRIL 1978. BECAUSE THE BOLIVAR REMAINS FULLY CONVERTIBLE, THIS OUTFLOW IS EQUIVALENT TO A DRAIN OF ABOUT BS. 7 BILLION

ON THE NATIONAL MONEY SUPPLY.

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--AS PART OF THE JULY MEASURES, THE GOV LEVIED A  
65 PERCENT RESERVE REQUIREMENT ON OFFICIAL DEPOSITS.  
FOR THOS BANKS RELATIVELY MORE DEPENDENT ON OFFICIAL  
DEPOSTS (E.&., BANCO NACIONAL DE DESCUENTO, BANCO UNION),  
THIS REQUIREMENT HAS SIGNIFICANTLY REDUCED THE SUPPLY OF  
LENDABLE FUNDS.

--FINALL6 THE GOVERNMENT AGENCIES HAVE CONTINUED TO  
BE SLOW IN MAKING PAYMENTS TO PRIVATE CONTRACTORS,  
ESPECIALLY IN THE CONSTRUCTION INDUSTRY. CASH FLOW  
PROBLEMS HAVE RESULTED, FORCING AN INCREASE IN PRIVATE  
SECTOR DEMAND FOR LOANS.

4. THE MEASURES ANNOUNCED MAY 30 SHOULD HELP SOMEWHAT.  
THE REDUCTION IN RESERVE REQUIREMENTS SHOULD INCREASE  
THE SUPPLY OF LENDABLE FUNDS BY MORE THAN BS 1.5 BILLION.  
THE REDUCTION IN THE CENTRAL BANK'S SWAP RATE WILL MAKE  
IT EASIER TO TAP OVERSEAS CREDIT SOURCES AND THEREBY  
STIMULATE AN INCREASED INFLOW OF FOREIGN EXCHANGE INTO  
THE COUNTRY. HOWEVER, THE DOWNWARD TREND IN FOREIGN  
EXCHANGE RESERVES MAY BE EXPECTED TO CONTINUE AND GOV  
POLICY CONTINUES TO CONSTRAIN TO SOME EXTENT THE USE  
TO WHICH CREDIT CAN BE PUT (E.G., 20 PERCENT OF LOAN  
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PORTFOLIO IN AGRICULTURE). FOR THESE REASONS WE BELIEVE THE CENTRAL BANK' LATEST MOVES WILL ONLY BE PARTIALLY EFFECTIVE IN OVERCOMING THE SHORTAGE OF COMMERCIAL BANK CREDIT. IN A PUBLIC STATEMENT REGARDING THE CENTRAL BANK' LATEST MOVES, THE PRESIDENT OF FEDECAMARAS (NATIONAL FEDERATION OF CHAMBERS OF COMMERCE AND INDUSTRY) CHARACTERIZED THEM AS A STEP IN THE RIGHT DIRECTION BUT PROBABLY INSUFFICIENT TO MEET THE REQUIREMENTS OF THE BUSINESS COMMUNITY.

5. THE VENEZUELAN GOVERNMENT FINDS ITSELF IN A DILEMMA REGARDING MONETARY POLICY. DURING THE 1978 PRESIDENTIAL ELECTION YEAR, THE GOVERNMENT DOES NOT WANT TO RESTRICT CREDIT TOO MUCH, BECAUSE OF THE DANGER OF DEFLATING THE ECONOMY AND ALIENATING THE BUSINESS COMMUNITY. HOWEVER, TOO EXPANSIVE A MONETARY POLICY WILL EXACERBATE THE PROBLEM OF INFLATION. IN ADDITION, FOR REASONS STATED IN CARACAS 4279, VENEZUELAN'S CURRENTLY ARE TENDING TO CONVERT EXCESS FUNDS INTO FOREIGN CURRENCIES AND TRANSFERRING THEM ABROAD. A GENERAL INCREASE IN CREDIT AVAILABILITY WOULD REINFORCE THIS TENDENCY, TO THE DETRIMENT OF VENEZUELA'S DETERIORATING BALANCE OF PAYMENTS SITUATION. THE GOVERNMENT THEREFORE HAS TO WALK A REAL TIGHTROPE, SUPPLYING CREDIT NECESSARY FOR ESSENTIAL NEEDS BUT DENYING TO THE SPECULATOR FUNDS EXCESS TO HIS NEEDS WHICH HE WOULD TRANSFER ABROAD. VAKY

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## Message Attributes

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